

Message Text

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SUB: GOVERNMENT ANNOUNCES NEW FOREIGN EQUITY POLICY

REF: (A) TEHRAN A-163, (B) TEHRAN 9511

1. BEGIN SUMMARY: MINISTER OF ECONOMIC AFFAIRS AND FINANCE (MEAF) HUSHANG ANSARY ANNOUNCED ON OCTOBER 13 GOI POLICY DETERMINATIONS CONCERNING FOREIGN EQUITY HOLDINGS AS IT PERTAINS TO SECTOR CEILINGS (15 TO 25 PERCENT) AND IS AFFECTED BY THE SHARE PARTICIPATION LAW. THE FOREIGN PARTICIPANT MAY RETAIN HIS EQUITY UP TO THE NEW SECTOR CELINGS AND IN NO CASE NEED MANAGEMENT BE ALTERED BY THE NEW SHARE PARTICIPATION. NEW VENTURES ENJOY A FIVE-YEAR GRACE PERIOD BEFORE COMPLYING WITH THE UNCLASSIFIED

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REQUIREMENT TO SELL 49 PERCENT OF SHARE TO THE PUBLIC. EXPANSIONS

MAY BE TREATED AS NEW VENTURES. END SUMMARY.

2. MINISTER ANSARY MET OCTOBER 13 WITH MANAGEMENT REPRESENTATIVES OF THE 106 FIRMS SCHEDULED TO SELL MINIMUM 49 PERCENT OF EQUITY SHARES TO THE PUBLIC (WORKERS, FARMERS AND GENERAL PUBLIC) THIS IRANIAN YEAR, AND ANNOUNCED THE GOI'S DECISIONS CONCERNING SHARE HOLDING CEILINGS FOR FOREIGNERS IN JOINT VENTURES, THE EFFECT OF THE WORKER SHARE PARTICIPATION PROGRAM ON FOREIGN SHARE PARTICIPATION AND MANAGEMENT, VOTING RIGHTS OF NEW SHARE HOLDERS, AND SHARE EVALUATION, DIVIDENDS, TAXATION AND FINANCING. CONCLUDING THESE ANNOUNCEMENTS, HE SAID THE GOVERNMENT WAS REVIEWING THE COMMERCIAL LAW AND MERGER LAW. HE ADDRESSSED THE CONCERN OF THE MOMENT--THE ANTI-PROFITEERING CAMPAIGN--AND SAID THE GOVERNMENT WILL RELOOK THE SITUATION FOLLOWING A PERIOD OF EFFECTIVE CAMPAIGNING AND THAT THE GOVERNMENT "HAS EVERY INTEREST IN AVOIDING RIGIDITY ON THE QUESTION OF COMPANY PROFITS."

3. SECTOR CEILINGS FOR FOREIGN EQUITY: CEILINGS RANGE FROM 15 PERCENT IN SECTORS SUCH AS FOOD AND TEXTILE INDUSTRIES TO 20 PERCENT IN LEATHER AND METAL PRODUCTS AND 25 PERCENT IN MOST OTHER AREAS. IN CERTAIN HIGH TECHNOLOGY INDUSTRIES SUCH AS CHEMICALS, PETROCHEMICALS, ELECTRONICS, AND MACHINERY AND EQUIPMENT, THE CEILING CAN BE RAISED FROM 25 TO 35 PERCENT AT THE GOVERNMENT'S DISCRETION. SPECIFIC CEILINGS, IN PERCENTS, ARE AS FOLLOWS: CHEMICALS--25, PETROCHEMICALS--25, CELLULOSE INDUSTRIES--25, LEATHER--20, BUILDING MATERIALS--20, NON-METALLIC MINERALS--25, ELECTRONICS--25, ELECTRICAL MACHINERY AND APPLIANCES--25, METAL PRODUCTS--20, TRANSPORT EQUIPMENT--25, BASIC METALS--25, FOOD INDUSTRIES--15, MACHINERY AND EQUIPMENT--25, TEXTILES--15, AND AGRO-INDUSTRIES --25.

4. EFFECTS OF SHARE SALES ON FOREIGN PARTICIPATION: FOREIGN PARTNERS IN JOINT VENTURES WHOSE PRESENT SHARE HOLDING DOES NOT EXCEED THE ANNOUNCED CEILINGS WILL NOT COME UNDER THE PURVIEW OF THE SHARE-PARTICIPATION REGULATIONS. WHERE THE FOREIGN HOLDINGS EXCEED THE CEILING THE SHARE-HOLDER WILL BE REQUIRED TO DISPOSE OF SHARES DOWN TO THE PERMITTED LEVELS. IN ANSWER TO EMBASSY QUERY, MEAF UNDER SECRETARY KOUROS SAID COMPLIANCE BY THE FOREIGNER MUST FOLLOW THE SCHEDULE FOR SHARE PARTICIPATION. IF THE COMPANY IS ONE OF THE 106 LISTED FOR SALES THIS IRANIAN YEAR (SEE REFAIR'S LISTING) THEN COM-

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PLIANCE OCCURS THIS YEAR. IRANIAN SHARE HOLDERS WILL IN ALL INSTANCES BE REQUIRED TO DISPOSE OF 40 PERCENT OF PRESENTLY OWNED SHARES. AS AN EXAMPLE, A JOINT VENTURE WITH A CURRENT EQUITY ARRANGEMENT OF 75 PERCENT IRANIAN/25 PERCENT FOREIGN WOULD RESULT AFTER SHARE SALES AT 26 PERCENT IRANIAN, 25 PERCENT FOREIGN AND 49 PERCENT PUBLIC. ONLY IN THOSE INSTANCES IN WHICH THE FOREIGN PARTNER WAS PERMITTED UP TO 35 PERCENT EQUITY COULD YOU HAVE A SITUATION IN WHICH THE FOREIGN PARTNER'S SHARE OF EQUITY EXCEEDED THAT OF

THE IRANIAN MANAGEMANE. IN SUCH CASES DR. KOUROS ADMITTED THE IRANIAN COULD MAINTAIN MANAGEMENT CONTROL BY PROVISION IN THE ARTICLES OF INCORPORATION AND COULD MAINTAIN MAJORITY SHARE HOLDINGS BY PROXY SHARES.

5. COVERAGE OF SHARE PARTICIPATION LAW: NEW VENTURES ARE ALLOWED A FIVE-YEAR PERIOD OF GRACE AFTER WHICH SHARES MUST BE OFFERED FOR PUBLIC SALE. IT WAS SUGGESTED BY ANSARY (EMBASSY WILL INVESTIGATE) THAT INVESTMENT IN EXPANSION OF EXISTING PLANT WOULD BE TREATED AS A NEW VENTURE FOR THE PURPOSE OF THE SHARE-PARTICIPATION LAW, BUT SUCH INSTANCES WILL BE TAKEN UP ON A CASE BY CASE BASIS.

6. EFFECTS OF SHARE PARTICIPATION ON MANAGEMENT: MINISTER ANSARY SAID THERE WAS NO INTENTION TO APPLY THE LAW IN SUCH A FASHION SO AS TO ALTER EXISTING MANAGMENT AND DECISION-MAKING RIGHTS BETWEEN PARTNERS. PARTNERS IN A JOINT VENTURE ARE FREE TO NEGOTIATE AGREEMENTS TO RETAIN PRESENT MANAGEMENT AND VOTING ARRANGEMENTS AFTER DISPOSING OF 49 PERCENT OF THEIR SHARES. TO EMPHASIZE THIS POSSIBILITY, THE EMBASSY WAS RECENTLY TOLD BY AN OFFICIAL OF IDRO, A PUBLIC CONGLOMERATE, THAT PUBLIC COMPANIES, EVEN AFTER HAVING SOLD THE REQUIRED 99 PERCENT OF SHARES TO THE PUBLIC, WILL RETAIN MANAGEMENT. SIMILARLY A PRIVATE FIRM CAN ESTABLISH A VETO POWER FOR MANAGMENT HOLDING A MINORITY EQUITY.

7. DIVIDENTS: THE GOVERNMENT WILL NOT INTERFERE IN A COMPANY'S DECISION TO WITHOLD DIVIDENTS. BUT IT WILL ACT TO PROTECT THE RIGHTS OF THE SMALL SHAREHOLDER. FOR EXAMPLE, AN INDUSTRY WITHIN THE 120 KM RADIUS OF TEHRAN, WHERE NO NEW EXPANSION IS PERMITTED AND WHERE THERE IS LITTLE OPPORTUNITY TO PLOUGH BACK PROFITS, WILL HAVE TO SHOW CAUSE FOR WITHHOLDING DIVIDENTS. COMMENT: THE DIVIDEND ISSUE IS IMPORTANT SINCE VIRTUALLY ALL ARRANGEMENTS FOR THE WORKER PURCHASE OF SHARES IS BY USE OF HIS DIVIDENT INCOME. THE FINANCING ORGANIZATION, THE MEAF'S COUNCIL OF EXPANSION OF INDUS-
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TRIAL OWNERSHIP'S FINANCING ARM, WILL MAKE PROVISION TO COVER WORKERS' REPAYMENT OF SHARE-PURCHASE LOANS IN THE EVENT DIVIDENTS ARE NOT PAID.

8. SHARE EVALUATION: ANSARY SAID LITTLE NEW CONCERNING THE METHOD OF CALCULATING THE SALE VALUE OF SHARES BEING SOLD TO THE PUBLIC, I.E., BASED ON PROFITS AND TAX PAYMENTS OVER THE LAST THREE YEARS WITH CONSIDERATION ALSO GIVEN TO RESERVES AND ASSETS, THE COMPANY'S MANAGERIAL STRENGTH AND "FUTURE PROSPECTS." HE ASSURED MANAGEMENT IT WILL BE GIVEN AN OPPORTUNITY TO FAMILIARIZE ITSELF WITH THE BASIS OF THE VALUATION. THE SHARES OF A NEW COMPANY STILL ENJOYING ITS FIVE-YEAR TAX HOLI-
DAY WILL BE EVALUATTED ON THE BASIS OF RETURN OF ITS INVESTMENT AS SHOWN IN THE COMPANY'S BOOKS. COMMENT: OF THE FIRST ELEVEN FIRMS WHOSE

SHARES WERE OFFERED TO THE PUBLIC, EIGHT ARE LISTED ON THE TEHRAN STOCK EXCHANGE. THE HEAD OF THE EXCHANGE SAID THAT IN ALL INSTANCES THE SHARE PRICE ESTABLISHED BY THE COUNCIL WAS SIGNIFICANTLY LOWER THAN THE LAST TRANSACTION ON THE EXCHANGE. BY EMBASSY'S OBSERVATION THE DIFFERENCE AVERAGES RUN 15 TO 20 PERCENT. IT IS NOT SURPRISING THAT ALL TRADING OF INDUSTRIALS ON THE EXCHANGE STOPPED WITH THE COMMENCEMENT OF THE SHARE PARTICIPATION PROGRAM.

9. SHARE PURCHASING AND FINANCING: THE FINANCING ORGANIZATION, ACTING AS INTERMEDIARY, WILL PURCHASE SHARES NOT TAKEN UP BY THE WORKERS. IT WILL NOT EXERCISE VOTING OR MANAGERIAL RIGHTS WHILE HOLDING SHARES. THE GOI IS STILL CONSIDERING WHETHER OR NOT STAFF EMPLOYEES MAY BE CONSIDERED AS WORKERS FOR PURPOSES OF THIS PROGRAM. THE GOI IS ARRANGING ADDITIONAL FINANCING FOR THE PROGRAM.

10. COMMENT: UNDER SECRETARY KOUROS SAID THESE POLICY DETERMINATIONS REMOVE THE LAST OBSTACLE TO THE SHARE PARTICIPATION PROGRAM (THE 11 DISCUSSED IN REFTEL AND SIX MORE RECENTLY ANNOUNCED) THUS FAR HAVE INCLUDED FOREIGN EQUITY.) THE EMBASSY WILL OBTAIN COMPLETE DETAILS OF THE POLICY DETERMINATIONS AND REPORT FURTHER ANY ADDITIONAL FACTORS.

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